Supreme Court, U.S.
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82-2044

No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1982

WESTERN FOOD EQUIPMENT CO.
Petitioner,

vs.

FOSS AMERICA, INC.
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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June 1983

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QUESTION PRESENTED

Whether it is constitutionally permissible, even though the parties have consented thereto, for a federal district court magistrate, a non-Article III judge, to try, decide and render judgment in a civil action.

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ..... (iv)

PROCEEDINGS BELOW 1

JURISDICTION 2

QUESTION PRESENTED 3

THE LAW INVOLVED 3

STATEMENT OF THE CASE 6

REASONS FOR GRANTING THE WRIT 7

CONCLUSION 10

Appendix A Magistrate's Opinion, Findings of Fact and Conclusions of Law dated February 25, 1980 ..... 1a

Appendix B Opinion of U.S. Court of Appeals, 9th Cir., dated November 22, 1982 ..... 15a

Appendix C. Order of the U.S. Court of Appeals, 9th Cir., denying Petition for Rehearing dated March 14, 1983 ..... 21a

TABLE OF AUTHORITIES

Page

Statutes:

The Constitution of the United States of America, Art III, Section 1 3

28 USC § 1332(a) 1
28 USC § 631(e) 4, 7
28 USC § 631(i) 4, 7
28 USC § 633(c) 5, 7
28 USC § 636(b)(1) 8
28 USC § 636(c) 3, 7, 8
28 USC § 1254(1) 2
28 USC § 2403(a) 2
35 USC § 285 6

Cases:

Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinea, 456 US 694 (1982) 9

Low v. United States, 169 Fed. 86 (6th Cir. 1909) 9

Northern Pipeline Construction Co. v. Marathon Pipeline Co., ____ US ____, 102 S.Ct. 2858, 73 L.Ed 2d 598 (1982) 5, 7

Patton v. United States, 281 US 276 (1930) 9

Toth v. Quarles, 350 US 11 (1955) 7

United States v. Will, 449 US 200 (1980) 7

United States v. Raddatz, 447 US 667 (1980) 8

Page

Rules:

Rule 17.1 of the Rules of the United States Supreme Court 2

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No.

WESTERN FOOD EQUIPMENT CO.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Petitioner – Plaintiff Western Food Equipment Co. ("Western") prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered in this case on November 22, 1982.

PROCEEDINGS BELOW

This case commenced in 1976 by the filing of an action by respondent Foss America, Inc. ("Foss") against petitioner Western in the United States District Court for the District of Oregon, jurisdiction being founded on diversity of citizenship under 28 U.S.C. § 1332(a). A number of claims were joined by both parties, and, because of the

posture of the case near the time of trial, upon the motion of Western, the parties were reversed, Western becoming the plaintiff and Foss the defendant.

The parties consented to trial by a federal magistrate, stipulating that the "decision by a magistrate will have the same effect as if made by a United States District Judge." From November 27 to December 19, 1979 one part of the case involving factual and damage issues was tried to a jury by magistrate George E. Juba, and from January 29 to January 31, 1980 another part of the case involving legal and equitable issues was tried to the magistrate alone.

On February 25, 1980 the magistrate issued an order entitled "Opinion, Findings of Fact and Conclusions of Law" (not officially reported). A copy is attached as Appendix A. Based upon the magistrate's order, the Clerk of the Court entered judgment against Western on certain later-appealed claims.

An appeal was filed by Western and on November 22, 1982, the United States Court of Appeals for the Ninth Circuit filed a Memorandum Opinion (not officially reported) affirming the magistrate's judgment (Appendix B). On March 14, 1983, the appellate court denied Western's petition for rehearing (Appendix C).

JURISDICTION

The judgment on the Ninth Circuit Court of Appeals was made final by the denial of Western's petition for rehearing. Jurisdiction is invoked under 28 U.S.C. § 1254(1) and Rule 17.1 of the Rules of this Court. 28 U.S.C. § 2403(a) may be applicable. No court of the United States has certified to the Attorney General the fact

that the constitutionality of the 1979 Magistrate's Act has been drawn into question.

QUESTION PRESENTED

Does the 1979 Magistrate's Act, 28 U.S.C. § 636(c), violate Article III of the United States Constitution by permitting non-Article III magistrates, even with the parties' consent, to be invested with the full judicial power of the United States?

THE LAW INVOLVED

Article III, Section 1 of the Constitution of the United States of America provides that:

> The judicial Power of the United States, shall be vested in one Supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behavior, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

In pertinent part, the 1979 Magistrate's Act,

28 U.S.C. § 636(c) provides:

> (c) Notwithstanding any provisions of law to the contrary—
>
> (1) Upon the consent of the parties, a full-time United States magistrate or a part-time United States magistrate who serves as a full-time judicial officer may conduct any or all proceedings in a jury or nonjury civil matter and order the entry of judgment in the case, when

> specially designated to exercise such jurisdiction by the district court or courts he serves . . .

As to the tenure of a magistrate, the 1979 Magistrate's Act, 28 U.S.C. § 631(e) & (i) provide:

> (e) The appointment of any individual as a full-time magistrate shall be for a term of eight years, and the appointment of any individuals as a part-time magistrate shall be for a term of four years, except that the term of a full-time or part-time magistrate appointed under subsection (k) shall expire upon—
>
> (1) the expiration of the absent magistrate's term,
>
> (2) the reinstatement of the absent magistrate in regular service in office as a magistrate,
>
> (3) the failure of the absent magistrate to make timely application under subsection (j) of this section for reinstatement in regular service in office as a magistrate after discharge or release from military service,
>
> (4) the death or resignation of the absent magistrate, or
>
> (5) the removal from office of the absent magistrate pursuant to subsection (i) of this section,
>
> whichever may first occur.
>
> (i) Removal of a magistrate during the term for which he is appointed shall be only for incompetency, misconduct, neglect of duty, or physical or mental disability, but a magistrate's office shall be terminated if the conference determines that the services performed by his office are no longer needed. Removal shall be by the judges of the district court for the judicial

> district in which the magistrate serves; where there is more than one judge of a district court, removal shall not occur unless a majority of all the judges of such court concur in the order of the removal; and when there is a tie vote of the judges of the district court on the question of removal or retention in office of a magistrate, then removal shall be only by a concurrence of a majority of all the judges of the council. In the case of a magistrate appointed under the third sentence of subsection (a) of this section, removal shall not occur unless a majority of all the judges of the appointing district courts concur in the order of removal; and where there is a tie vote on the question of removal or retention in the office of a magistrate, then removal shall be only by a concurrence of majority of all the judges of the council or councils. Before any order or removal shall be entered, a full specification of the charges shall be furnished to the magistrate, and he shall be accorded by the judge or judges of the removing court, courts, council or councils an opportunity to be heard on the charges.

As to compensation of a magistrate, the 1979 Magistrate's Act, 28 U.S.C. § 633(c) provides:

> (c) Changes in Number, Locations and Salaries. Except as otherwise provided in this chapter, the conference may, from time to time, in the light of the recommendations of the Director, the district courts, and the councils, change the number, locations and salaries of full-time and part-time magistrates, as the expeditious administration of justice may require.

In *Northern Pipeline Co. v. Marathon Pipe Line Co.*, ____ U.S. ____, 102 S.Ct. 2858, 73 L.Ed. 2d 598 (1982), this Court held the Bankruptcy Act of 1978 unconstitu-

tional on the ground that the Act conferred Article III judicial power upon judges who lacked life tenure and protection against salary dimunition. Although there was no majority opinion, six of the justices did agree that the Act was unconstitutional under Article III of the United States Constitution.

STATEMENT OF THE CASE

The underlying substantive case involved three issues which were adjudicated by the magistrate: (1) whether Western's conduct before the United States Patent Office with respect to an application for a United States Patent was improper and if so, whether that conduct could be characterized as "fraudulent" so as to permit the court to award attorney's fees to respondent Foss America under the "exceptional" case provision of 35 U.S.C. § 285; (2) whether, given the jury's general verdict of $300,000 in favor of Western on its trade secret misappropiation claim against Foss, judgment should have been granted in *Foss'* favor and against Western; and (3) whether, given the disputed nature of the evidence at trial, the trial court should have permitted the jury to assess Western's claim against Foss America for deceit. Notwithstanding the jury's verdict in Western's favor, the magistrate ruled against Western on all three claims. Based upon the magistrate's rulings, judgment was entered against Western by the Clerk of the Court dismissing Western's trade secret misappropriation and deceit claims against Foss and awarding attorney's fees under 35 U.S.C. § 285 to respondent Foss America in the amount of $35,000.

REASONS FOR GRANTING THE WRIT

In order to secure an independent judiciary to provide checks and balances against the Executive and Legislative branches of government, Article III, Section 1 of the Constitution has laid down two essential prerequisites with respect to the appointment of judges who are to be given the full judicial authority of the United States:

1. Life tenure on good behavior, *Toth v. Quarles,* 350 U.S. 11 (1955); and

2. Non-dimunition of salary, *United States v. Will,* 449 U.S. 200 (1980).

In *Northern Pipeline, supra,* this Court concluded:

> The inexorable command of this provision is clear and definite: The judicial power of the United States must be exercised by Courts having the attributes prescribed by Article III.

73 L.Ed 2d at 607.

Although the 1979 Magistrate's Act, 28 U.S.C. § 636(c), grants to magistrates full judicial authority of the United States with the parties' consent, neither of these two essential criteria are met:

1. 28 U.S.C. § 631(e) provides for limited terms of four and eight years, while 28 U.S.C. § 633(i) provides for removal for a wide variety of reasons other than misbehavior, including the ground that the magistrate's "services are no longer needed."

2. 28 U.S.C. § 633(c) provides that magistrates' salaries may be *changed* from time to time "as the expeditious administration of justice may require."

The common thread of the justices' opinion in the *Nor-*

thern Pipeline case is submitted to be concern with these precise constitutional drawbacks in the Bankruptcy Act of 1978, which purported to grant similar Article III authority to bankruptcy judges who lacked life tenure and protection against salary diminution.*

This very concern was previously expressed by this Court in *United States v. Raddatz,* 447 U.S. 667 (1980) when considering the provision of the Magistrate's Act, 28 U.S.C. § 636(b)(1), which referred "dispositive" motions to a magistrate for proposed findings and recommendation, but required final decision by a district court judge (with life tenure and non-dimunition of salary). The plurality opinion noted:

> Thus, although the statute permits the district court to give to the magistrate's proposed findings of fact and recommendations "such weight as [their] merit commands and the sound discretion of the judge warrants," Mathews v. Weber, supra, at 275, 46 L.Ed. 2d 483, *that delegation does not violate Art III so long as the ultimate decision is made by the district court.*

447 U.S. at 683 (Emphasis added)

Here, under 28 U.S.C. § 636(c), the ultimate decision is *not* made by the district court. Moreover, in a dissenting opinion, Justice Marshall, joined by Justice Stewart, felt that the Court should have been even more strict:

> The Court's unwillingness to construe the relevant provision in this fashion may be attributable to an understandable desire to minimize existing burdens on federal district judges, burdens that

*Other serious potential problems in having magistrates serve as Article III judges have been noted. See "Note: Article III Constraints and the Expanding Civil Jurisdiction of Federal Magistrates: A Dissenting View," 88 Yale L.J. 1023 (1979).

> may seem especially unnecessary with respect to the gathering and evaluation of the facts. But the replacement of Art. III judges with magistrates, even if the replacement extends only to the finding of facts, erodes principles that strike near the heart of the constitutional order. In such contexts considerations of administrative cost are least forceful, and the Court must be most wary lest principles that were meant to endure be sacrificed to expedience.

447 U.S. at 713.

Since the requirements of Article III are fundamentally jurisdictional, they cannot be waived by the parties' consent. In *Patton v. United States*, 281 U.S. 276 (1930), in addressing the issue of whether the constitutional right to trial by jury could be waived, this Court quoted with approval from *Low v. United States*, 169 Fed. 86 (6th Cir. 1909):

> Undoubtedly, the accused has a right to waive everything which pertains to form and much which is of the structure of a trial. But he may not waive that which concerns both himself and the public, nor any matter which involves fundamentally the jurisdiction of the Court.

And recently, in *Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinea*, 456 U.S. 694, 72 L.Ed. 2d 492, 500-501 (1982), this Court said:

> Subject matter jurisdiction, then, is an Article III as well as a statutory requirement; it functions as a restriction on federal power, and contributes to the characterization of the federal sovereign. Certain legal consequences directly follow from this. For example, no action of the parties can confer subject matter jurisdiction upon a federal court. Thus, the consent of the parties is irrele-

vant, California v. La Rue 409 U.S. 109, 34 L.Ed. 2d 342, 92 S.Ct. 390 (1972), principles of estoppel do not apply, American Fire & Casualty Co. v. Finn, 341 U.S. 6, 17-18, 95 L.Ed. 702, 71 S.Ct. 534 (1951), and a party does not waive the requirement by failing to challenge jurisdiction early in the proceedings. Similarly, a court, including an appellate court, will raise lack of subject matter jurisdiction on its own motion. [T]he rule, springing from the nature and limits of the judicial power of the United States is inflexible and without exception, which requires this court, of its own motion, to deny its jurisdiction, and the exercise of its appellate power, that of all other courts of the United States, in all cases where such jurisdiction does not affirmatively appear in the record. Mansfield Coldwater & Lake Michigan Ry. Co. v. Swan, 111 U.S. 379, 382, 28 L.Ed. 462, 4 S.Ct. 510 (1884).

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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June 1983

I, the undersigned, hereby certify pursuant to the provisions of Rule 28.3 of the Rules of the Supreme Court of the United States that on June 13, 1980 I served the foregoing Petition for Writ of Certiorari upon all parties required to be served by deposition of three printed copies thereof in a sealed envelope, with first class airmail postage prepaid, in the United States Post Office in Washington, D.C. addressed to each of such persons at the regular office address listed below:

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APPENDIX A

Magistrate's Opinion, Findings of Fact and Conclusions of Law dated February 25, 1980

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

WESTERN FOOD EQUIPMENT CO., Plaintiff,	)	
v.	)	Civil No. 76-755
FOSS AMERICA, INC., Defendant	)	

OPINION, FINDINGS OF FACT AND CONCLUSIONS OF LAW

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JUBA, Magistrate:

In August 1976, Foss America, Inc. (Foss) filed a complain against Western Food Equipment Co. (Western)

alleging non-payment of amounts owing on its sale to Western of milk testing equipment. Western counterclaimed, alleging unlawful termination of a distributorship and breach of a confidential relationship. In April 1977, Western added a third counterclaim for patent infringement.

Foss was awarded partial summary judgment on the non-payment claim in June 1977. In December 1978, Western withdrew the counterclaims for unlawful termination of a distributorship and patent infringement, and they were dismissed with prejudice. However, Western added a counterclaim for deceit, alleging two separate misrepresentations. In April 1979, Foss was permitted to add a claim against Western for slander.

Before trial, Foss was awarded partial summary judgment on the deceit claim as to one of the misrepresentations, since it was barred by the statute of limitations. During trial it became apparent that the statute of limitations had also run on the second misrepresentation and the deceit counterclaim was dismissed.

The parties were realigned for trial, with Western as plaintiff and Foss as defendant. The case was tried before a jury. The only claims to be decided were Western's claim for breach of a confidential relationship and Foss' claim for slander. The jury found for Western on the misappropriation claim and awarded Western $275,000. general damages and $25,000. punitive damages. On the slander claim, the jury found against Foss and in favor of Western.

Foss now moves under Fed. R. Civ. P. 49(b) for judgment in its favor on the confidential relationship claim and for an award of attorney fees on the previously dismissed patent infringement claim.

I. BREACH OF A CONFIDENTIAL RELATIONSHIP

The jury returned a general verdict in favor of Western on the confidential relationship claim. Before deliberation, the court instructed the jury as follows:

> The owner of confidential information cannot, by disclosing the confidential information, prevent the recipient from using any information or knowledge that was already in the recipient's possession at the time the information was disclosed. Nor can the owner of the confidential information, by disclosing the information, prevent the recipient from using information or knowledge that subsequently comes into his possession from a third party who has acquired the information or knowledge without assistance from the owner of the confidential information. *Therefore, if you find that the information disclosed to Foss America by Western was already known to Foss America or to its supplier, Foss Electric (Denmark), then you must find for Foss America.*

(Emphasis added).

The above instruction was derived from an instruction proposed by Foss, to which Western made timely objection. The proposed instruction was then amended with Western's participation, and Western did not take any exception to the instructin in its final form.

Both parties collaborated in the drafting of special interrogatories given to the jury. Interrogatory number six asked:

> Was the allegedly confidential information disclosed by Western Food to Foss America previously known to Foss America's supplier, Foss Electric (Denmark)?

The jury answered "yes" to the interrogatory.

Foss contends that the answer to interrogatory number six is inconsistent with a jury verdict in Western's favor and that Foss is accordingly entitled to a judgment in its favor under Fed. R. Civ. P. 49(b). Foss further contends that Western is now precluded from objecting to the jury instruction since Western did not preserve any objection for the record. Fed. R. Civ. P. 51. Western contends that the answer to interrogatory number six is consistent with the general verdict in its favor and that the jury instruction, as given, does not correctly state the law. Western further contends that its original objection was sufficient to preserve the record on appeal.

Objection to jury instruction

Western correctly states that it filed a written objection to Foss' proposed jury instruction on the defense to the confidential relationship claim. However, that jury instruction was subsequently amended. Western participated in the amendment. Western did not object to the instruction as amended, and contrary to Western's assertion, Western had ample opportunity to object. I therefore conclude that Western did not preserve an objection to the jury instruction for purposes of appeal, and is foreclosed from objecting for the first time now. Fed. R. Civ. P. 51.

Fed. R. Civ. P. 49(b)

Rule 49(b) allows the court to submit to the jury a general verdict form and special interrogatories. When the general verdict and the answers to the special interrogatories are consistent, the court may enter judgment under Rule 58 in accordance with the jury's general ver-

dict. When the answers to the special interrogatories are consistent with each other, but inconsistent with the general verdict, the court has three options. The court may (1) enter judgment in accordance with the answer to the special interrogatories, notwithstanding the general verdict;[1] (2) return the jury for further deliberations; or (3) order a new trial. *Blackwell v. Cities Service Oil Co.*, 532 F.2d 1006, 1008 (5th Cir. 1976). The court may not enter judgment on the general verdict. *Blackwell,* at 1008; *Turchio v. D/S/ A/S Den Norske Africa,* 509 F.2d 101, 106 (2nd Cir. 1974). Before exercising any of the above options, the court must try to reconcile the answers to the special interrogatories with the general verdict if reconciliation is possible. *Julien J. Studley, Inc. v. Gulf Oil Corporation,* 407 F.2d 521, 527 (2nd. Cir. 1969).

Western contends that the answers to interrogatory number six can be reconciled with the general verdict. I disagree.

Under the jury instruction on Foss' defense to the misappropriation claim, Foss had a complete defense if Foss or its supplier, Foss (Denmark), already had the information supplied by Western. Western now contends that the defense was applicable only if Foss used its information, and not Western's. Western points it that the jury, in answers to interrogatories three and our, found that Foss used the information supplied by Western.

Western's contention is valid only if Oregon law provides that the recipient of confidential information must

[1]The first option is foreclosed if the answers to the special interrogatories are also inconsistent with each other, Rule 49(b); *Mayview Corp. v. Rodstein*, Civil Nos. 77-3468 and 77-3481 (9th Cir. Feb. 4, 1980). Here the answers to the interrogatories are consistent with each other.

not only already have that information, but must use the information already in its possession, and not the information provided confidentially. Western has failed to cite any Oregon case in support of that propostion. In fact, Oregon law, as contained in the lead case of *E. V. Prentice Dryer Co. v. Northwest Dryer Co.*, 246 Or. 78, 82-83 (1967), is contrary to Western's position.

In *Prentice*, the plaintiff accused defendant Gordon of breaching a confidential relationship by misappropriating information obtained by Gordon when he worked for plaintiff. The evidence indicated that Gordon had copied and used information contained in one of plaintiff's blueprints. The Oregon Supreme Court stated:

> The clearest evidence of plagiarism was that relating to defendant's use of plaintiff's blueprints in making tracings and copies. But in doing so, defendant did not acquire any information concerning the Prentice dryer or plaintiff's method of manufacture and sale not already known to Gordon as a result of his previous employment with plaintiff and others.

246 Or. at 82-83.

The court was acknowledging that Gordon used the information obtained from his employment with Prentice, but held that he had a complete defense because he already had knowledge of the information used.

I conclude that under Oregon law Foss established a complete defense by showing it already possessed the information supplied by Western. The jury instruction was therefore a correct statement of the law. Even if Western were belatedly allowed to object to that instruction, it would be of no avail.

In light of the the jury instruction, the jury's answer to interrogatory number six is irreconcilable with the general verdict in Western's favor. The evidence supports the jury's answer that Foss Electric (Denmark) already knew of the information supplied by Western. I therefore conclude that Foss established a complete defense to the misappropriation claim. Nothing would be gained by ordering a new trial or requiring the jury to continue deliberations. (In fact, the latter is precluded since the jury panel has been discharged.)

I therefore conclude that Foss is entitled to judgment in its favor on the misappropriation claim, notwithstanding the general verdict. Fed. R. Civ. P. 49(b).

II. ATTORNEY FEES

Shortly after the initiation of this case, Western filed a counterclaim against Foss, alleging patent infringement. In December 1978, twenty months later, Western withdrew the counterclaim and it was dismissed with prejudice. Foss now seeks attorney fees as the prevailing party on the patent claim, under 35 U.S.C. § 285.

After trial, an evidentiary hearing was conducted before the court to determine whether Western committed fraud on the Patent Office, thereby warranting an award of attorney fees to Foss.

35 U.S.C. § 285 provides that, in a patent infringement case, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." If the party defending the infringement action proves that the patent applicant committed fraud on the Patent Office in obtaining a patent, the fraud alone is sufficient to convert the action into an exceptional case. *Monolith Portland*

Midwest Company v. Kaiser Aluminum and Chemical Corporation, et al., 407 F.2d 288, 294 (9th Cir. 1969). Furthermore, conduct short of fraud, but which exhibits a "calculated recklessness about the truth and which constitutes a serious breach of duty (of candor) to the Patent Office" is sufficient to make the case exceptional. *Id.* at 297. I find that this case is exceptional.

The threshhold requirement to the award of attorney fees is that the movant be the prevailing party. Here, the patent infringement claim was not tried because Western withdrew it. Western now argues that an award of attorney fees to Foss would be unfair and would discourage parties from settling disputes without trial, if they are subjected to the possibility of being penalized anyway.

While I share Western's view that parties should not be discouraged from settling disputes without trial, I am also aware that a significant cost is involved in defending a patent infringement claim, whether or not the claim is actually tried. Discovery, often expensive, must proceed on the assumption the case will be tried. Significant research is done in anticipation of trial. Here, twenty months elapsed before Western withdrew the patent infringement claim. The fact that the claim was not tried does not automatically render attorney fees inapplicable. However, the fact that Western withdrew the claim will be a factor in determining what constitutes "reasonable" attorney fees.

Western's patent

On April 17, 1975, Western filed an application with the Patent Office for issuance of a patent on a milk standardization process invented by Joseph Lester, a Western employee. Lester was intimately involved in the prosecution of the patent application. On December 15, 1975, and

again, in May 1976, the Patent Office rejected Western's application on the ground that it was obvious and anticipatory of prior art. In October 1976, Western filed an amendment to its application, together with four declarations by experts in the field to establish that the Lester invention was not obvious because of prior art. The four declarants, Lloyd Luedecke, Paul R. Elliker, Roy Stein, and Fred W. Froese, each stated that Lester's process analyzes the butterfat content of reblended milk and uses that information to adjust the reblending system to obtain a product of uniform butterfat content. Each declarant stated that Lester's process was unique in the dairy industry. The prior art concerned a "batch" process which required a known butterfat content to begin with. Lester's process was a "continuous" process which did not require a known butterfat content at the outset.

On December 6, 1976, as a result of filing of Western's amendment, and the declarations of the four experts, the Patent Office issued a "Formal Notice of Allowance" of the patent application. On April 12, 1977, the Lester milk standardization process was issued U.S. Patent No. 4,017,643.

Fraud on the Patent Office

Foss contends that Western, through its employee, Joseph Lester, committed fraud on the Patent Office. Foss alleges that Lester knew of a continuous milk standardization process similar to his in 1973, but never made it known to the Patent Office. Foss further contends that Lester was aware that a similar system was put on sale more than a year before Western's application was filed with the Patent Office. Such knowledge, contends Foss, was sufficient to establish an on-sale bar to the Lester pa-

tent, under 35 U.S.C. § 102(b). Finally, Foss contends that Western did not state the best mode for the Lester invention in its application to the Patent Office as required by 35 U.S.C. § 112[2]. Foss argues that Western's conduct in prosecuting the patent application constituted a fraud on the Patent Office, or at the least, constituted a pattern of conduct reflecting a calculated disregard for the truth, resulting in a serious breach of Western's uncompromising duty of candor to the Patent Office.

I find that Lester's knowledge of a potential on-sale bar to his patent application is not sufficient to warrant a conclusion that he seriously breached a duty of candor to the Patent Office. Lester testified that he believed that the system allegedly on sale was a paper system which would not work out. To constitute an "on-sale bar" to patentability under 35 U.S.C. § 102(b), an invention must be reduced to practice, not experimentally, but commercially. *Austin v. Marco Dental Products, Inc.*, 560 F.2d 966 (9th Cir. 1977). No evidence was introduced that the alleged on-sale invention was complete or ready for use. While Lester's testimony was not credible in some areas, I do not find he acted in bad faith in not reporting the potential on-sale bar. Similarly, the failure to report the "best mode" of his invention is at the most a minor breach.

There remains the most significant and crucial issue of Lester's failure to report the existence of a system similar

[2]Foss also contends that Western is liable for a misstatement made by Paul Elliker to the Patent Office on the Lester claim, because of a contradictory statement he made to the Patent Office on an unrelated claim. Under no circumstances is there any agency relationship on the separate statements, and Elliker's alleged fraud is not attributable to Western.

to his which, if reported, might have been fatal to his patent application.

At trial on Western's misappropriation claim, Lester testified that he was aware, at the time the patent application was filed, of an article written by Lloyd E. Slater in *Food Engineering,* November 1973, describing work being done at Harbisons[3] on butterfat standardization. Lester later testified at an evidentiary hearing to determine the attorney fees issue, that he had never read the *Food Engineering* article in its entirety. Lester contended that he had understood, from a letter he received from Van Stringham describing the work at Harbisons, that the process there merely involved a monitoring or alarm system, and was not a continuous system involving the reblending of blended milk to achieve a uniform butterfat content. Therefore, testified Lester, he was not that interested and did not pay too much attention to the *Food Engineering* article or the work being done at Harbisons.

However, Lester also testified that he had seen a letter sometime in 1973 which described the work being done at Harbisons in a way which, if understood, could not be misinterpreted. During his testimony on this letter, Lester was evasive on whether he actually read or understood what was involved in the Harbison process. He agreed that the contents of the letter were consistent with the contents of the *Food Engineering* article, and inconsistent with his idea of what was being done at Harbison. Lester ultimately testified in response to questions on cross-examination:

> Q: So now you don't think you read this letter; is that what you're telling me? Foss 592.

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[3]Harbisons is a division of Southland Corporation. The work done there involved a milko-tester machine supplied by Foss Electric (Denmark).

A: Could be that I didn't.

Mr. Lester's testimony on what he did or did not know about the work being done at Harbisons was equivocating and evasive to say the least. There is no question that he knew that the work was being done at Harbisons. As the ultimate judge of a witness' credibility, I find it incredible that Lester did not know the significance of the work at Harbisons before he filed the patent application. He kept a copy of the *Food Engineering* article detailing the work at Harbisons in his work file and had also seen a letter in 1973 outlining the work at Harbisons in a manner consistent with the magazine article. I find that Lester did know of the work being done at Harbisons and the significance of that work.

Materiality of knowledge

It is apparent from the record as a whole that the Patent Office reversed its previous rejection of the Lester patent because of the declarations of Elliker, Stein, Froese and Luedecke, submitted in an amendment to the Lester application. Each of the declarants stated that he was unaware of any process similar to Lester's, thereby distinguishing the Lester process from prior art. Luedecke stated:

> To my personal knowledge, no one heretofore has relied upon the butterfat content of reblended milk in order to control the amount of butterfat in reblended milk. To my knowledge, no one has heretore suggested or developed a process which permits the continuous processing of milk as has been devised by Mr. Lester, and as shown and described in his patent application. Mr. Lester's process is a decided improvement in the art.

In testimony at trial on the misappropriation claim, Luedecke testified that he could not have made that statement had he known about the *Food Engineering* article. He further testified that neither Lester nor anyone else at Western informed him of the *Food Engineering* article at the time he executed the above-quoted declaration.

Similar, Dale A. Seiberling[4], an expert in the dairy industry, testified at trial that statements made by Elliker, Stein, Froese and Luedecke about the Lester process could apply equally to the process described in *Food Engineering*.

The evidence introduced at trial, and at the subsequent hearing on attorney fees, established that the milk standardization process described in the *Food Engineering* article published in November 1973, was so closely akin to the Lester process that it could not be ignored in the prosecution of Lester's patent application. The evidence further established that Western through its employee Lester, induced experts to make declarations about Lester's process, for the purpose of securing a patent, that Lester knew to be untrue.

I find that Lester's conduct in prosecuting the patent application constituted active fraud on the Patent Office sufficient to convert the patent infringement claim into an exceptional case under 35 U.S.C. § 285. I find that Foss is entitled to reasonable attorney fees, the amount to be determined at a future date, taking into account the fact that Western voluntarily withdrew its patent infringement claim before trial.

[4]Seiberling owns a patented invention relating to the milk standardization process, which has been characterized as a "batch" process.

IT IS ORDERED:

1. Judgment shall be entered for Foss and against Western on the breach of confidential relationship claim.

2. Foss is entitled to attorney fees, the amount to be determined at a future date.

The above shall constitute findings of fact and conclusions of law pursuant to Rule 52(a), Fed. R. Civ. P.

Dated this 25 day of February, 1980.

/s/ George E. Juba

United States Magistrate

APPENDIX B

Opinion of U.S. Court of Appeals, 9th Cir., dated November 22, 1982

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FOSS AMERICA, Inc., a corporation Plaintiff/Appellee,	)	
vs.	)	CA No. 80-3226
	)	DC No. CV 76-755
WESTERN FOOD EQUIPMENT COMPANY, a corporation, Defendant/Appellant .	)	

MEMORANDUM

Appeal from the United States District Court
for the District of Oregon
George E. Juba, Magistrate, Presiding
Argued and submitted October 4, 1982

Before: WALLACE, FARRIS, and POOLE, Circuit Judges.

We affirm the award of attorneys' fees. The finding that the patent infringement claim was an "exceptional case" under 35 U.S.C. § 285 is within the court's discretion. We find no abuse of discretion nor do we find that the law has been erroneously applied. *Maurice A. Garbell, Inc. v. Boeing Co.*, 546 F.2d 297 (9th Cir. 1976), *cert. denied*, 431 U.S. 955 (1977).

The primary issue is the effect of prior knowledge by Foss Electric on Western Food's claim for misappropria-

tion of confidential information. The issue has two components: 1) whether knowledge of Foss Electric was also possessed by Foss America and 2) whether such knowledge is in itself a defense. The jury was instructed without objection:

> The owner of confidential information cannot, by disclosing the confidential information, prevent the recipient from using any information or knowledge that was already in the recipient's possession at the time the information was disclosed. Nor can the owner of the confidential information by disclosing the information prevent the recipient from using information or knowledge that subsequently comes into his possession from a third party who has acquired the information or knowledge without assistance from the owner of the confidential information. *Therefore, if you find that the information disclosed to Foss America by Western was already known to Foss America or to its supplier, Foss Electric (Denmark), then you must find for Foss America.* [Emphasis added.]

There was an objection to an earlier form of this instruction suggested by Foss America. The court responded by adopting Western Food's proposal on use of information or knowledge not obtained from the confidential source and adding its own direction to the jury as a concluding sentence. This appeal contests a result compelled by the court's additional language. Following the charge to the jury, Western Food's counsel was given the opportunity to state any objections. At this point counsel objected only to the court's instruction concerning damages. No exception was taken to the prior knowledge charge. The court then asked whether there were any other exceptions. Counsel's response, "No, Your Honor," was a waiver of objection. Fed. R. Civ. P. 51.

The latter part of the instruction provides a defense if either Foss America or Foss Electric had prior knowledge. The knowledge of Foss Electric is thus imputed to Foss America. At trial Foss America contended that it was aware of the relevant information possessed by Foss Electric. By failing to make a timely objection to the instruction, Western Foods accepted this version of the facts. It is now precluded from challenging the instruction's resolution of the issue in favor of Foss America.

The plain error rule generally may not be invoked in civil appeals to obtain review of an unchallenged instruction. *Pierce Packing Co. v. John Morrell & Co., 633 F.2d 1362, 1365 (9th Cir. 1980); Moore v. Telefon Communications Corp.*, 589 F.2d 959, 966 (9th Cir. 1978); *Bock v. United States*, 375 F.2d 479, 480 (9th Cir. 1967). We will review the propriety of a jury instruction to which exception was not taken where the trial court was apprised of appellant's opposition to the instruction and further objection would have been unavailing. *See Brown v. Avemco Investment Corp.*, 603 F.2d 1367, 1370-71 (9th Cir. 1979); *Robinson v. Heilman*, 563 F.2d 1304, 1306-07 (9th Cir. 1977). Assuming arguendo that Western Food's objection to Foss America's proposed instruction and its own substitute adequately informed the trial court for purposes of Fed. R. Civ. P. 51 that it objected to the court's language regarding the knowledge defense, we find no error in the court's charge.

We reject Western Food's argument that prior knowledge of the technical data was not a defense if Foss America or Foss Electric actually used communicated information. Though the jury found in interrogatories 3 and 4 that "Foss," without specifying Foss America or Foss Electric, used the information acquired from Western Foods, the trial judge concluded that use has no bearing

on the prior knowledge defense. *See E.V. Prentice Dryer Co. v. Northwest Dryer & Machinery Co.*, 246 Or. 78, 82-83, 424 P.2d 227, 230 (1967). We defer to this interpretation of state law since it is not "clearly wrong." *See Airlift International, Inc. v. McDonnell Douglas Corp.*, 685 F.2d 267, 269 (9th Cir. 1982); *Power v. Union Pacific Railroad Co.*, 655 F.2d 1380, 1382 (9th Cir. 1981). In light of the court's direction, the jury's affirmative response to interrogatory 6 provided a complete defense under Oregon law.

Affirmed.

APPENDIX C

Order of the U.S. Court of Appeals, 9th Cir., denying Petition for Rehearing dated March 14, 1983

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FOSS AMERICA, Inc., a corporation Plaintiff/Appellee,	)	
vs.	)	CA No. 80-3226
	)	DC No. CV 76-755
WESTERN FOOD EQUIPMENT COMPANY, a corporation, Defendant/Appellant.	)	(Oregon) ORDER

Before: WALLACE, FARRIS, and POOLE, Circuit Judges.

Appellant's petition for rehearing is denied.